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BEFORE THE ARIZONA CORPORATION COMMISSION
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AZ CORP COMMISSION
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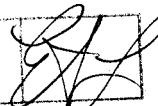
SUSAN BITTER SMITH
 CHAIRMAN
 BOB STUMP
 COMMISSIONER
 BOB BURNS
 COMMISSIONER
 DOUG LITTLE
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 COMMISSIONER

IN THE MATTER OF THE APPLICATION OF
 EPCOR WATER ARIZONA INC., AN
 ARIZONA CORPORATION, FOR A
 DETERMINATION OF THE CURRENT FAIR
 VALUE OF ITS UTILITY PLANT AND
 PROPERTY AND FOR INCREASES IN ITS
 RATES AND CHARGES FOR UTILITY
 SERVICE BY ITS MOHAVE WATER
 DISTRICT, PARADISE VALLEY WATER
 DISTRICT, SUN CITY WATER DISTRICT,
 TUBAC WATER DISTRICT, AND MOHAVE
 WASTEWATER DISTRICT.

Docket No. WS-01303A-14-0010

Arizona Corporation Commission
DOCKETED

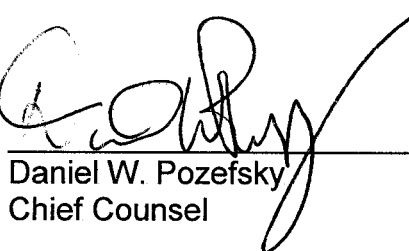
MAR 11 2015

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NOTICE OF FILING

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the I
 Testimony Summaries of Ralph Smith, in the above referenced matter.

RESPECTFULLY SUBMITTED this 11th day of March, 2015


 Daniel W. Pozefsky
 Chief Counsel

1 AN ORIGINAL AND THIRTEEN COPIES
2 of the foregoing filed this 11th day
3 of March, 2015 with:

3 Docket Control
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6 emailed this 11th day of March, 2015 to:

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By Cheryl Frauloh

EXECUTIVE SUMMARY
DIRECT TESTIMONY OF RALPH C. SMITH
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE
DOCKET NO. WS-01303A-14-0010
EPCOR WATER ARIZONA, INC. MULTI-DISTRICT RATE CASE

My direct testimony addresses incentive compensation, affiliated charges/Corporate Allocation expenses, and deferred income tax issues presented in this EPCOR Water Arizona Inc. ("EPCOR," "EWAZ" or the "Company") water and wastewater utility rate case. Attachments RCS-1 through RCS-5 contain additional background and qualifications information and copies of selected documents that are referenced in my direct testimony. Attachment RCS-1 contains additional information on my Background and Qualifications. Attachment RCS-2 presents a March 18, 2014 EPCOR Utilities Inc. Investor Presentation that has an overview of EPCOR. Attachment RCS-3 presents my recommended adjustments to EPCOR affiliated charges affecting each of the districts. Attachment RCS-4 contains copies of EWAZ non-confidential responses to data requests and other non-confidential material referenced in testimony. Attachment RCS-5 contains selected EWAZ Confidential material that is referenced in my testimony.

Concerning adjustments to the Company's requested operating expenses, Section IV of my direct testimony identified the following recommended adjustments, which, cumulatively, reduce expenses for the five districts by \$479,102:

EPCOR Water Arizona Inc.									
Summary of Adjustments to Affiliated Charges Expense									
Test Year Ended June 30, 2013									
Line No.	Description	Attachment RCS-3 Schedule	RUCO Adjustment to Test Year Affiliate Charges Expense					Total 5 Districts	
			Sun City Water	Mohave Water	Mohave Wastewater	Paradise Valley Water	Tubac Water		
1	Incentive Compensation Expense - STIP	C-1	\$ (134,672)	\$ (91,622)	\$ (15,497)	\$ (82,996)	\$ (9,192)	\$ (333,978)	
2	Incentive Compensation Expense - MTIP	C-2	\$ (48,534)	\$ (33,020)	\$ (5,585)	\$ (29,911)	\$ (3,313)	\$ (120,363)	
3	EPCOR Corporate IT Affiliated Charges Expense	C-3	\$ (1,278)	\$ (869)	\$ (147)	\$ (788)	\$ (87)	\$ (3,169)	
4	Advertising, Promotions and Donations Expense	C-4	\$ (5,627)	\$ (8,700)	\$ (324)	\$ (4,553)	\$ (2,388)	\$ (21,591)	
5	Total		\$ (190,111)	\$ (134,211)	\$ (21,553)	\$ (118,248)	\$ (14,979)	\$ (479,102)	

Concerning Accumulated Deferred Income Taxes ("ADIT"), as discussed in Section V of my direct testimony, the information received at that point indicated that the ADIT balance used by the Company to reduce rate base in these filings was understated for a number of reasons, including that the Company did not update the recorded December 31, 2012 balance from that date to the end of the June 30, 2013 test year that it is using. ADIT should be updated through June 30, 2013 to reflect plant additions through the end of the test year, as well as the impact of 2013 bonus tax depreciation that was claimed on such additions. Additionally, the net rate base impact for any post-test year plant additions to be allowed should reflect appropriate offsets for related ADIT, including the impact of 2013 and 2014 bonus tax depreciation, to the extent it can be identified and reasonably quantified. Finally, I noted that in acquiring these utilities from American Water Works Company, an Internal Revenue Code §338(h)(10) election was made, which resulted in treating the acquisition for income tax purposes as an asset sale, and which resulted in resetting to zero the utilities' ADIT balances as of the date of the ownership transfer. Arizona ratepayers could be harmed by that election, and an appropriate remedy to protect them may be needed. Moreover, if such a remedy is determined to be needed, it should be done in a way that will not result in a normalization violation and will thus preserve the Company's ability to continue to use accelerated tax depreciation. I also noted that additional information was being sought by RUCO from the Company concerning ADIT related issues.

EXECUTIVE SUMMARY
SURREBUTTAL TESTIMONY OF RALPH C. SMITH
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER OFFICE
DOCKET NO. WS-01303A-14-0010
EPCOR WATER ARIZONA, INC. MULTI-DISTRICT RATE CASE

My surrebuttal testimony addresses incentive compensation, affiliated charges/Corporate Allocation, and deferred income tax issues presented in the current EPCOR Water Arizona Inc. ("EPCOR," "EWAZ" or the "Company") water and wastewater utility rate case. My surrebuttal testimony specifically addresses certain adjustments and issues that were discussed in the Rebuttal Testimony of EPCOR Water Arizona Inc. ("EPCOR", "EWAZ", or the "Company") witnesses Sheryl Hubbard and Sandra Murrey. These issues include operating income adjustments for incentive compensation and for certain expenses in the Corporate Allocation and for the Accumulated Deferred Income Tax ("ADIT") component of rate base to reflect the impact of 2013 bonus tax depreciation.

Attachments RCS-6 through RCS-8 contain adjustment quantification details and copies of selected documents that are referenced in my surrebuttal testimony. Attachment RCS-6 includes some selected non-confidential responses to discovery that were not included in the attachments to my direct testimony, including some of EPCOR's responses to RUCO data request sets 30 and 35 that are referenced in my surrebuttal testimony. Attachment RCS-7 includes confidential responses that are referenced in my surrebuttal testimony. Attachment RCS-8 presents calculations related to a recommended adjustment to ADIT for the impact of 2013 tax depreciation including 2013 bonus tax depreciation. Attachment RCS-8 also presents calculations of updated adjustments for incentive compensation and affiliated charges/corporate allocations.

In the determination of a utility's rate base, there are offsets to Plant in Service for Accumulated Depreciation, ADIT, and other items representing non-investor supplied capital. A utility should earn a rate base return only on investment in used and useful assets that have been financed by investors. ADIT represents a significant source of non-investor supplied capital. Some components of ADIT, such as tax depreciation, are directly related to Plant. Consequently, the impacts of tax depreciation on ADIT should be appropriately coordinated in determining utility rate base. Increases to ADIT resulting from bonus tax depreciation and accelerated tax depreciation, to the extent that such tax depreciation has been claimed on the tax return and has produced tax savings, should be coordinated with the amount of Plant that is reflected in utility rate base. In 2013, bonus tax depreciation was available and was utilized by the Company. Proper matching thus requires that the impact of 2013 tax depreciation, including 2013 bonus tax depreciation, on ADIT be appropriately reflected in the determination of rate base. As shown on Attachment RCS-8, Schedule B-1, the ADIT amounts should be increased by approximately \$3 million in total to reflect 2013 bonus tax depreciation. The ADIT amounts are allocated to the districts using a customer factor. The ADIT amounts for each of the five districts in the current rate case should be increased by the amounts listed on Attachment RCS-8, Schedule B-1, which sum to \$872,727 for the five districts. This adjustment to ADIT for the impact of 2013 bonus tax depreciation reduces the Company's proposed rate base by \$872,727 for the five districts combined.

Ralph Smith Surrebuttal Testimony, Executive Summary, page 2

This adjustment to rate base for ADIT and the updated adjustments to operating expenses for the five districts for incentive compensation and affiliate charges that I am recommending are summarized in the following table:

EPCOR Water Arizona Inc.								
Summary of Adjustments to Affiliated Charges Expense								
Test Year Ended June 30, 2013								
RUCO Adjustment to Test Year Pre-Tax Operating Expense								
Line No.	Description	Attachment RCS-8 Schedule	Sun City Water	Mohave Water	Mohave Wastewater	Paradise Valley Water	Tubac Water	Total 5 Districts
I Adjustments to Operating Expenses								
1	Incentive Compensation Expense - STIP	C-1	\$ (134,672)	\$ (91,622)	\$ (15,497)	\$ (82,996)	\$ (9,192)	\$ (333,978)
2	Incentive Compensation Expense - MTIP	C-2	\$ (27,747)	\$ (18,877)	\$ (3,193)	\$ (17,100)	\$ (1,894)	\$ (68,811)
3	EPCOR Corporate IT Affiliated Charges Expense	C-3	\$ (1,278)	\$ (869)	\$ (147)	\$ (788)	\$ (87)	\$ (3,169)
4	Advertising, Promotions and Donations Expense	C-4	\$ (5,154)	\$ (8,378)	\$ (270)	\$ (8,379)	\$ (2,355)	\$ (24,536)
5	Thunder Mountain and North Mohave Acquisitions	C-5	\$ (9,803)	\$ (6,669)	\$ (1,128)	\$ (6,041)	\$ (669)	\$ (24,310)
6	Total		\$ (178,653)	\$ (126,416)	\$ (20,235)	\$ (115,304)	\$ (14,197)	\$ (454,805)
RUCO Adjustment to Test Year Rate Base								
I Adjustments to Rate Base								
7	Accumulated Deferred Income Taxes	B-1	\$ (439,856)	\$ (302,205)	\$ (26,995)	\$ (92,263)	\$ (11,409)	\$ (872,727)